

## CHAPTER 9: SECTION 1

### ***ACCOUNTING FOR CAPITAL ASSETS, INFRASTRUCTURE AND RELATED DEBT***

In FY02-03 all governmental funds (except permanent trust funds) are required to account for and depreciate all capital assets meeting the capitalization threshold, in fund 471 on COFRS. All proprietary funds, including institutions of higher education, are required to account for and depreciate their capital assets in their respective funds.

#### **1.1 Capital Asset Reporting Systems**

All state agencies and institutions are required to maintain a detailed record of all capital assets. These records should include the cost, acquisition date, disposal date, estimated useful life, calculated annual depreciation, and accumulated depreciation for each capitalized asset. Acceptable systems for maintaining capital asset records include the COFRS Fixed Asset module, approved stand-alone fixed asset systems, databases and spreadsheets such as Excel or Lotus. Agencies are reminded that the State Controller's approval is required before a stand-alone fixed assets system is purchased.

#### **1.2 Definition of Capital Assets**

Capital assets are long-lived assets, owned by the state, that are held primarily for use in an agency's operations and programs. Examples of such assets include land, improvements to land, buildings, leasehold improvements, equipment (including furniture, fixtures, machinery, vehicles, computer software and equipment), library books, works of art, historical treasures, and infrastructure. These assets result from either expenditures made by the agency or donations made to the agency from an external source. Capital assets have a useful life greater than one year and must be capitalized if they meet cost thresholds established in this section. Capital assets include both non-depreciable and depreciable assets.

The state will report non-depreciable capital assets in the following broad classes:

- Land
- Land Improvements (such as grading)
- Construction in Progress
- Works of Art and Historical Treasures (whose useful lives are not diminished by display, educational, or research applications)

State agencies are encouraged, but not required, to capitalize works of art and historical treasures that are:

- Held for public exhibition, education or research
- Protected, cared for or preserved
- Subject to an organizational policy that requires the proceeds from sales to be used to acquire other items.

The state will report depreciable capital assets in the following broad classes:

- Land Improvements
- Buildings and Improvements
- Equipment
- Library Books and Holdings
- Works of Art and Historical Treasures
- Infrastructure (Departments of Transportation and Natural Resources only)
- Other

### 1.3 Valuing Capital Assets

Capital assets built or acquired by the state are recorded at historical cost, including ancillary costs necessary to place the assets in their intended location and condition for use. Ancillary costs include freight charges, site preparation, appraisal fees, and legal claims directly attributable to the asset's acquisition. A salvage value does not need to be estimated when recording and depreciating capital assets. However, if a state agency has historically estimated a salvage value on capital assets or believes not estimating a salvage value would have a material impact on the annual depreciation calculation, it is permissible to include a salvage value when recording and depreciating capital assets.

Donated capital assets are recorded at the estimated fair value of the assets at the time of donation. If historical cost information is unavailable after a search of bond documents, capital appropriations, donor records, etc., an estimate of the original cost using current replacement costs discounted by appropriate price indices is allowed.

### 1.4 Capitalization Criteria

The dollar amount of the purchase and the estimated useful life of the asset are the primary criteria the state uses to determine what assets are capital assets. Purchases of assets that meet the dollar thresholds in 1.4.1 and have an estimated useful life of more than one year will be capitalized.

#### 1.4.1 Dollar Thresholds

For the purchase or construction of new assets, the following dollar thresholds should be used by agencies to determine if the asset should be capitalized. A state agency may select a lower minimum dollar threshold to capitalize the purchase of an asset, but an agency may not choose a higher dollar threshold.

Type of Asset	Capitalization Threshold
Land	All purchases are capitalized, regardless of cost
Land Improvements	\$50,000
Building	\$50,000
Leasehold Improvements	\$50,000
Infrastructure	\$500,000
Furniture and Equipment	\$5,000 per item
Library Materials and Collections	All purchases are capitalized, regardless of cost
Works of Art and Historical Treasures	\$5,000 per item/collection

For expenditures related to repair, remodeling or expansion of an existing capital asset, the agency must determine if the expenditure increased the capacity, operating efficiency or extended the useful life of the asset. If so, such expenditures are capitalized as part of the costs of the asset.

Agencies should use the thresholds identified above to capitalize repair, remodeling or expansion expenditures. Expenditures that only serve to restore a capital asset to a working condition or do not enhance or extend the useful life should be recorded as repair and maintenance expense and should not be capitalized. A state agency must maintain appropriate documentation to support what constitutes an enhancement or useful life extension.

### 1.5 Estimated Useful Lives

The estimated useful life of a capital asset is a function of each agency's own experience. Supporting documentation for determining the estimated useful life would be engineering studies, actual experience documented in the records of similar assets, etc.. Some agencies may be required to follow the useful lives identified by third party regulators such as those specified by the American Hospital Association Depreciation Guide.

The following useful lives guidelines may be used by state agencies when calculating depreciation expense only if they have no supportable estimates of their own.

CAPITAL ASSET	ESTIMATED USEFUL LIFE
Buildings:	
Type 1 - Fireproof construction	40 years
Type 2 - Non-combustible construction (as classified by the Department of Public Safety in accordance with 780 CMR 402.0 and 403.0)	27.5 years
Type 3 - External masonry wall construction	27.5 years
Type 4 - Frame construction (as classified by the Department of Public Safety in accordance with 780 CMR 404.0 and 405.0)	27.5 years
Building Improvements	20 years
Leasehold Improvements	The greater of 5 years or the term of the lease
Equipment (non-office)	10 years
Computer Equipment	3 years

Other Office Equipment: Items such as copiers, ovens, washers, dryers, office files	6 years
Life Safety Improvements: Building or leasehold improvements or equipment acquisitions made solely to satisfy the requirements of any department regarding life safety or physical environment. Purpose must be documented.	5 years
New Motor Vehicles	5 years
Used Motor Vehicles	3 years
Residential Furnishings	3 years
Office Furnishings	10 years
Land Improvements Subject to Depreciation	20 years
Industrial Steam and Electric Generation and Distribution Systems	22 years
Aircraft	6 years
Watercraft	20 years
Buses	9 years
Roads, Tunnels and Bridges	50 years
Boating Facilities - buildings, piers, ramps	25 years

It is allowable to componentize capital assets such that various components of the asset are depreciated over different useful lives. An example is a building. As the building ages, the shell or foundation may be depreciated over a longer useful life than the HVAC (Heating, Ventilation, Air-Conditioning) system.

#### 1.6 Recording of Capital Assets

Capital assets purchased by proprietary funds, including institutions of higher education, are recorded in the fund in which they operate, or in the case of higher education, in the discreet higher education plant fund, and depreciated there. Capital assets purchased by all governmental funds other than the permanent trust fund, are recorded in fund 471.

Normally non-depreciable land is the only capital assets of the permanent trust funds. Thus they are recorded in the permanent trust funds and there is no depreciation. In the rare instance that a depreciable capital asset is held by a permanent trust fund then the asset would be capitalized in the trust fund but depreciated in fund 471. Contact the State Controller's Office if further clarification is needed.

The recording and reporting of capital assets for financial reporting purposes is different than management's responsibility to safeguard fixed assets. An agency may want to maintain inventory control over purchases of fixed assets that do not meet the capitalization thresholds discussed in this chapter. When an agency makes this choice, it is essential that the object of expenditure recorded is not in the capital purchases series (61XX, 62XX, 63XX, 64XX, 65XX, 66XX, 23XX). Through the diagnostic process Reporting and Analysis will determine if agencies have completed the Fund 471 entries by matching the credit totals in Fund 471 to the debit totals in governmental funds for the capital purchases object series. This would include items normally recorded in the 19XX object codes such as Engineering and Architectural Fees if these expenditures are to be capitalized. If this is the case then use object code 6510 to record these items instead of the 19XX objects.

The COFRS chart of accounts includes numerous balance sheet codes in the 18XX series to record the various types of capital assets within the above broad classes. Definitions are available on the State Controller's Office web page in the chart of account definitions and in the accounting standards for higher education institutions. It is the policy of the State of Colorado that only the Departments of Transportation and Natural Resources will record and report infrastructure capital assets.

#### **Example of the Purchase of a Capital Asset in a Governmental Fund**

Under modified accrual used in governmental funds, capital purchases are expenditures, and interest incurred during construction is not capitalized. The normal budgetary and financial entries for a governmental fund may be found below on the first three lines. The entries required in fund 471 are necessary to reverse out the expense of the purchase and capitalize the asset for the government-wide statements.

		FUND 100		FUND 471	
22	Capitalized Property Purchase	5,000			
22	Interest Expense*	50			
01	Cash		5,050		
01	Equipment*			5,000	
22	Capitalized Property Purchase				5,000

\*Note that the Interest Expense remains an expenditure and is not included in the capital valuation of the asset.

#### **Example of the Purchase of a Capital Asset in a Proprietary Fund**

Under full accrual, used in proprietary funds, capital assets and interest expense incurred during construction of capital assets are both capitalized in the fund. A type 23 account is used to record the budget expense and to record the equipment on the balance sheet at its capital cost of \$5,050, which includes interest. No fund 471 entry is required.

		FUND 505		FUND 471	
23	Capitalized Property Purchase	5,000			
23	Interest Expense	50			
01	Cash		5,050		

The use of a Type 23 in the proprietary fund, instead of a Type 22, results in an entry being made to both the budgetary ledger and the related asset account in the general ledger. This results in the property purchase and interest being shown correctly as an expense on the COFRS budgetary

reports, but not on the financial reports. On the financial report \$5,050 was properly capitalized in a 18XX balance sheet account.

#### **Example of the Donation of a Capital Asset**

Under modified accrual, donated capital assets are not accounted for in a governmental fund, but are recorded at their fair market value at the time of donation in fund 471.

		FUND 100		FUND 471	
01	Land			10,000	
31	Donation-CA Land (Revenue Account 6609)				10,000

#### **Governmental Fund Capital Assets Funded 100 Percent by the Capital Construction Fund**

In the example below, an agency has made leasehold improvements that benefit a governmental fund and are funded by capital construction money. The money is spent (Type 22) in the Capital Construction Fund and the asset is capitalized in the 471 fund.

		FUND 461		FUND 471	
22	Leasehold Improv-Dir Purchase	55,000			
01	Cash		55,000		
01	1830 Leasehold Improvements			55,000	
22	Leasehold Improv-Dir Purchase				55,000

#### **Proprietary Fund Capital Assets Funded 100 Percent by the Capital Construction Fund**

Using the same set of facts as the example immediately above except, that the fund benefiting from the asset is a proprietary fund, then the asset is capitalized in the proprietary fund.

		FUND 461		FUND 5XX	
22	Leasehold Improv-Dir Purchase	55,000			
01	Cash		55,000		
01	1830 Leasehold Improvements			55,000	
31	8800 Capital Contribution				55,000

#### **Proprietary Fund Capital Assets Funded 100 Percent by the Proprietary Fund**

For non-higher education funds when there is no capital construction funding of a capital asset then all of the accounting is done in the proprietary fund using a type 23 account to record both the expense for budgetary accounting and an asset for financial accounting.

For higher education funds where the project is a S.B. 202 project then the accounting is done solely in the Plant Fund, exempt or non-exempt. Where the project is not a S.B. 202 project then the accounting is done in either the capital construction fund or the 375 plant fund. If the accounting is in the 461 fund then the expenses are recorded in the 461 fund and cash is transferred to the 461 fund as augmenting revenue from the higher education plant fund. All higher education capital construction projects are accounted for the plant funds, but some capital construction projects are accounted for in both the 461 fund and the plant funds. The State Controller's Office will use post-closing adjustments to eliminate the augmenting revenue and associated expenditures in the 461 fund so that the duplicate accounting is eliminated for the state's financial statements.

**Proprietary Fund Capital Assets Split Funded by the Capital Construction Fund**

If the project is funded both by the capital construction fund and a non-higher education proprietary fund, then it must be accounted for in the capital construction fund. The proprietary fund must record a receivable when it moves cash to the 461 fund. The 461 fund records the cash and revenue. At year-end, the proprietary fund must capitalize the asset, reduce the receivable for the cash funded portion that was capitalized, and record a capital contribution for the capital construction fund portion.

		FUND 461		FUND 5XX	
01	1350 IG Receivables- General			27,500	
01	Cash				27,500
01	Cash	27,500			
31	7312 Advance from State Gov.		27,500		
22	Capitalized Property Purchase	55,000			
01	Cash		55,000		
	<i>At Year-End</i>				
01	18XX Capital Asset Account			55,000	
01	1350 IG Receivables – General				27,500
31	8800 Capital Contribution				27,500

For split funded projects in higher education, where the cash is coming from a controlled fund, then the plant fund expenses the money reimbursed to the capital construction fund instead of treating it as a inter-governmental (IG) receivable. When the asset is capitalized in either fund 399 or the plant fund, the expense is eliminated instead of the IG receivable. At year-end the State Controller's Office will eliminate the 461 fund expenditures to the extent of the cash funded augmenting revenues recorded. The State Controller's Office will reclass the unbalanced transfer in code EBGD to a capital contribution.

The treatment is the same even where the cash goes the opposite direction, meaning the plant fund does the construction and capital construction fund reimburses the plant fund.

**1.7 Recording Depreciation Expense**

All exhaustible capital assets are depreciated using the straight-line method, estimated salvage value (agency option), and the estimated useful lives as determined by the agency or obtained from the table above.

Agencies have the option of depreciating each capital asset or depreciating by class of capital asset. Agencies also have the option of using an estimated salvage value when calculating depreciation. Agencies are required to record depreciation expense on capital assets at least by the end of the fiscal year. More frequent entries to record depreciation expense are permitted. Depreciation expense is recorded in fund 471 for the capital assets of the governmental funds and in each fund for proprietary funds.

The State Controller's Office recommends, but does not require, that agencies use the "half-year" convention when calculating depreciation expense in the year in which an asset is purchased and disposed. The "half-year" convention works as follows: Regardless of what month you place the asset in service, you calculate and record depreciation expense as if the agency placed the asset in service on January 1 of the fiscal year. This results in the agency recording depreciation expense for one-half of the first fiscal year. Likewise, regardless of when an asset is disposed, the agency

treats the asset as if it was disposed on January 1 of the fiscal year and records a half year of depreciation expense. An alternative methodology is to calculate depreciation expense based on the actual month the capital asset is placed in service. Taking a full year's depreciation in the year an asset is placed in service is not permitted unless the asset is placed in service on July 1.

### 1.8 Disposing of Capital Assets in Governmental Funds

Beginning July 1, 2001, under full accrual accounting required for the state's government-wide financial statements, state agencies must recognize a gain or loss on the sale or disposal of capital assets. An accounting gain or loss on the disposal of a capital asset occurs when the net book value of the asset, that is, original cost minus accumulated depreciation, does not equal the cash or other consideration received when the asset is disposed.

Depreciation must first be recorded for the asset in fund 471 for the year in which it is disposed. Then accumulated depreciation is debited equal to the amount of accumulated depreciation recorded for the asset since the asset was placed in service. The capital asset balance sheet code is credited in an amount equal to the original cost of the asset plus any amounts added to the cost of the asset over time. Revenue source code 6502 Sale of Real Property or 6503 Gain/Loss on Sale of Equipment is then debited to balance the entry. This entry is made whether the agency received any cash or not on the disposal of the asset. The cash is recorded in the governmental fund with the corresponding credit to the revenue accounts 6502 or 6503.

Gain: An asset with a cost of \$5,000 and a book value of \$3,500 is sold for \$4,000.

		FUND 100		FUND 471	
01	Cash	4,000			
31	Gain/Loss on Sale of Fixed Asset		4,000		
31	Gain/Loss on Sale of Fixed Asset			3,500	
01	Accumulated Depreciation			1,500	
01	Equipment				5,000

Loss: An asset with a cost of \$5,000 and a book value of \$3,500 is sold for \$3,000. Note that the entries are exactly the same in fund 471 as the sale of the asset with a gain. The gain or loss is determined only when the funds are merged and the ending balance is either a debit or a credit.

		FUND 100		FUND 471	
01	Cash	3,000			
31	Gain/Loss on Sale of Fixed Asset		3,000		
31	Gain/Loss on Sale of Fixed Asset			3,500	
01	Accumulated Depreciation			1,500	
01	Equipment				5,000

### 1.09 Recording Depreciation on Capital Assets Near the End of Their Useful Life

If an agency has been using depreciation for expensing capital assets against federal grants and those assets are fully depreciated (whether directly to the grants or through an indirect charge), then those assets should be recorded on books as fully depreciated.

For other capital assets that are approaching the end of their originally estimated useful life, the agency should make an estimate of how much useful life is left and adjust the depreciation accordingly. In other words, it would not be expected that assets that were still serving an economic purpose would be recorded on the books as fully depreciated. For example, if an



agency had an asset that it originally was going to depreciate over a three-year useful life but determined in the third year that the asset would last four years then the last one-third of the remaining book value of the asset would be depreciated over those remaining two years. This only applies to material amounts. If the remaining book value is greater than the capitalization criteria for that asset type then it is considered material.

#### 1.10 Transfer of Capital Assets Between Agencies

If a capital asset is transferred between two agencies and there is no exchange of cash then the asset and related accumulated depreciation should be removed from the sending agencies books and the identical amounts should be added to the receiving agencies books with any needed debit or credit to the revenue code 650X Gain/Loss On Disposal Of Property.

For example a server valued at \$7,500, with a useful life of 3 years and depreciated for one year using the mid-year convention is being transferred from Human Services to Health Care Policy and Financing. Both agencies record the equipment in Fund 471. Note that at the Statewide level the Gain/Loss is zero.

		Agency IHA		Agency UHA	
01	1840 Furniture and Equipment		7,500	7,500	
01	1849 Accumulated Depreciation	1,250			1,250
31	6503 Gain/Loss on Equipment	6,250			6,250

#### 1.11 Dates for Recording Infrastructure Prospectively and Retrospectively

All infrastructure with a value greater than the threshold amount of \$500,000 must be recorded in the appropriate accounts in Fund 471 if that infrastructure is acquired or constructed after July 1, 2001. Infrastructure acquired since the beginning of FY80-81 must be recorded prior to June 30, 2006.



## **CHAPTER 9: SECTION 2**

### ***BASIC FINANCIAL STATEMENTS AND MANAGERIAL DISCUSSION AND ANALYSIS -- FOR STATE AND LOCAL GOVERNMENTS***

The state implemented GASB 34/35 beginning July 1, 2001. Changes were made in the state's fund groupings and chart of accounts to accommodate the reporting requirements of these new statements. In addition, some funds changed fund types. Funds 471 and 472 will no longer be reported in the fund financial statements. Agencies will have to report depreciation on their capital assets and the state's major infrastructure will have to be added to the financial records. Capital assets will be segregated into depreciable and non-depreciable. Grants will be segregated into capital and operating. The colleges and universities will be reported as a single proprietary fund. In the governmental funds, modifications to accrual accounting will have to be offset with additional entries before the government-wide statements required under GASB 34/35 may be produced.

#### **2.1 Statements Required Under GASB 34**

##### Government-wide Statements

- Statement of Net Assets

- Statement of Activities

##### Fund Level Statements

###### Governmental Funds

- Balance Sheet

- Statement of Revenues, Expenditures, and Changes in Fund Balance

###### Proprietary Funds

- Statement of Net Assets

- Statement of Revenues, Expenses, and Changes in Net Assets

- Statement of Cash Flow

###### Fiduciary Funds

- Statement of Fiduciary Net Assets

- Statement of Changes in Fiduciary Net Assets

#### **2.2 Fund Structure Under GASB 34**

##### Governmental Funds

- General Fund

- Special Revenue Fund

- Debt Service Fund

- Capital Projects Fund

- Permanent Funds

##### Proprietary Funds

- Enterprise Funds

- Internal Service Funds

## Fiduciary Funds

- Pension and Other Employee Benefit Trust Funds
- Investment Trust Funds
- Private Purpose Trust Funds
- Agency Funds

Please refer to the FY03-04 chart of accounts in this manual for a detailed list of the fund numbers by fund category and type. Note that funds are no longer “smart-coded.”

## 2.3 Required Financial Statements for Stand-alone Statements

Proprietary funds that issue stand-alone statements are required to issue the following:

- ♦ Management Discussion and Analysis;
- ♦ Statement of Net Assets;
- ♦ Statement of Revenues, Expenses, and Changes in Fund Net Assets;
- ♦ Statement of Cash Flows; and
- ♦ Notes to the financial statements.

Governmental funds that issue stand-alone statements are required to issue the following:

- ♦ Management Discussion and Analysis;
- ♦ Balance Sheet;
- ♦ Statement of Revenues, Expenditures, and Changes in Fund Balances;
- ♦ Notes to the financial statements; and
- ♦ Budget to Actual Statement as Required Supplementary Information for their participation in the general fund or any major special revenue fund.

## 2.4 Tasks Required to be Performed by State Agencies

1. See Section 1 of this chapter for a detailed description of the following items:
  - ♦ Separately record depreciable and non-depreciable capital assets.
  - ♦ Record FY 2002-03 depreciation on all depreciable assets.
  - ♦ Book all infrastructure retrospectively back to FY80-81 by June 30, 2006.
  - ♦ Maintain records for infrastructure maintenance using the modified approach.
2. All Governmental Funds
  - ♦ Segregate existing deferred revenue into two distinct accounts:
    - Deferred revenue related to long-term assets, and
    - Deferral of advances.
  - ♦ Permanent Funds Only
    - Code additions to permanent funds to a new account.
    - Account for the expendable and nonexpendable portions of the permanent funds in separate funds.
  - ♦ Separately code restricted assets (usually cash or investments) whose restrictions are:
    - Externally imposed by creditors, grantors, contributors, or laws or regulations of the federal government, or
    - Imposed by the state constitution.

3. All Proprietary Funds
  - ♦ Classify proprietary fund type assets and liabilities into current and non-current for the fund's Statement of Net Assets. Current assets are those that will be converted into cash in the next fiscal year. Current liabilities are those that will be liquidated in the next fiscal year.
  - ♦ Separately code restricted assets (usually cash or investment) whose restrictions are:
    - Externally imposed by creditors, grantors, contributors, or laws or regulations of the federal government, or
    - Imposed by the state constitution.
  - ♦ Separately code capital asset related debt from other debt.
  - ♦ Internal services funds must use revenue source codes to identify which agencies they receive revenue from. Refer to the chart of accounts in this manual for the proper account codes and names to use.
  - ♦ Identify and separately code external transactions of internal service funds since these balances are excluded from the look-back adjustment on the Statement of Activities.
4. Fiduciary Funds Only
  - ♦ Clear all agency funds of payables to other state agencies by agency close of Period 13 in FY 2002-03.
  - ♦ Record group benefits plans as a pension and other employee benefit trust fund.
  - ♦ Separately record deferred compensation (457 plans) as employer pension contributions and member pension contributions.
5. Colleges and Universities Only
  - ♦ Report cash flow information by governing board on Exhibit V to the SCO beginning with FY 2002-03.
  - ♦ Do internal service fund accounting on COFRS for internal sales in fund 328.
  - ♦ Report higher education segment financial information to the SCO on Exhibit T.
6. All Funds
  - ♦ Separately code operating and capital grants.
  - ♦ Separately code grants to other state agencies between federal sub-recipient codes and state government codes. Both segregated further into intrafund, interfund and inter-activity codes.
  - ♦ Complete Exhibit U for special and extraordinary items as of June 30, 2003.
  - ♦ Capitalize material inventory amounts at June 30, 2003.

## 2.5 Other Uses of Fund 471

### 2.5.1 Recording Deferred Revenue for Long-term Receivables in Governmental Funds

Under modified accrual the revenue for long-term receivables is deferred but under full accrual the revenue is not deferred. The fund financial statements use modified accrual but the government-wide statements use full accrual. In the following example \$250 of taxes receivable are accrued but \$75 dollars is not expected to be collected until after the following fiscal year. Under modified accrual, as practiced by governmental funds, that amount should be deferred so that it is not available for appropriation in the subsequent fiscal year. In fund 471 the deferral is reversed so that when fund 100 and fund 471 are combined at the government-wide level, the deferral is zero.

		FUND 100		FUND 471	
01	Taxes Receivable	250			
31	Tax Revenue		175		
02	Deferral of Long-Term Receivable		75		
02	Deferral of Long Term Receivable			75	
31	Tax Revenue				75

### 2.5.2 Inception of a Capital Lease

Under modified accrual a capital lease is an Other Financing Source. Under full accrual a capital lease is a liability. In fund 471 the Other Financing Source is reversed and the payable is recorded.

		FUND 100		FUND 471	
24	Capital Lease Purchase Expenditure	5,000			
31	Future Capital Lease Payments		5,000		
01	Equipment			5,000	
02	Leases Payable				5,000
31	Future Capital Lease Payments			5,000	
24	Capital Lease Purchase Expenditure				5,000

### 2.5.3 Capital Lease Payment

Under modified accrual the total payment is an expenditure of the current period while under full accrual only the interest cost is an expense of the current period.

		FUND 100		FUND 471	
22	Capital Lease Principal Expenditure	1,000			
22	Capital Lease Interest Expenditure	500			
01	Cash		1,500		
02	Leases Payable			1,000	
22	Capital Lease Principal Expenditure				1,000

**2.5.4 Bond Issuance and Payments**

Bond issuance costs and payments are handled very similar to capital leases described in Sections 2.5.2 and 2.5.3. Issuance costs, premiums, and discounts are amortized over the life of the bond in fund 471.

		FUND 100		FUND 471	
01	Cash	5,000			
31	Bond Proceeds (Face Amount)		5,000		
31	Bond Proceeds (Face Amount)			5,000	
02	Bonds Payable				5,000
22	Bond Issuance Expenditure	100			
01	Cash		100		
01	Deferred Bond Issuance Cost			100	
22	Bond Issuance Expense				100
22	Bond Principal Payment	1,000			
22	Bond Interest Expense	250			
01	Cash		1,250		
02	Capital Bonds Payable			1,000	
22	Bond Principal Payment				1,000
22	Bond Interest Expense			20	
01	Deferred Bond Issuance Cost				20

In order to determine the amount of fund balance to be restricted for capital assets, net of related debt, unspent bond proceeds must be reclassified. If bond proceeds are unspent at year-end (a material amount still remains in cash) then that amount of Capital Bonds Payable must be reclassified to Non-capital Bonds Payable.

**2.5.5 State Grants and Federal Pass-Thru Grants**

Due to the need to eliminate interfund State Grants and Federal Pass-Thru Grants for the government-wide statements, but not the fund statements, agencies are required to use different object codes to record these grants. Federal grants passed-thru to another state agency should be recorded either in object code 5770 (intrafund) or 5771 (interfund) depending on whether they are intrafund or interfund. State grants and contracts should be recorded either in object code 5775 (intrafund) or 5776 (interfund) depending on whether they are intrafund or interfund.

**2.5.6 Other Items**

Other items that are different between modified accrual and full accrual, and thus have to be accounted for in fund 471, are the amortization of bond premium/discount and the amortization of the gain/loss on debt refunding. You may contact your field accounting specialist if you have difficulty in recording these entries.

**2.6 Special and Extraordinary Items**

Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence are considered special items. Significant transactions or other events that are both unusual in nature and infrequent in occurrence are extraordinary items. Both of these items must be reported on Exhibit U.

**2.7 Capital and Non-capital Grants**

Agencies must segregate their grant revenues on COFRS between capital and non-capital grants for correct presentation on the government-wide Statement of Activities. If an agency has discretion as to whether the grant revenues may be spent on operating or capital items then the grant is always non-capital. If the grant is restricted by the grantor for capital items then it is a capital grant and the revenue should be recorded as such on COFRS. When the grantor specifies portions of the grant as capital and non-capital, and they are material to the grant, then the agency should pro-rate the revenue between capital and non-capital grant revenue source codes. The chart of accounts has additional revenue source codes for recording the revenue from capital grants (7430, 7530, 7630, 7730, and 7830).

**2.8 Restricted Assets**

Cash and investments are to be reported as restricted when constraints are placed on their use by external creditors, grantors, contributors or the laws and regulations of the federal government. Normally, federal funds are on a cost reimbursement basis and would not give rise to an asset to be restricted. Cash and investments may also be reported as restricted when they are constrained by the state constitution or the provisions of the enabling legislation if it is contractual in nature. They cannot be restricted solely at the discretion of the legislature or agency management.

In order to determine the restricted net assets, agencies will be required to account for the restricted assets, and the liabilities to be paid from these assets, in a fund other than the fund in which the agency accounts for its normal operations. Where this is not practical then the agency will account for their restricted cash and investments in the balance sheet accounts 1034 Restricted Cash and 1634 Restricted Investments, and then make a fund balance entry at year-end to the appropriate 32XX Restricted Fund Balance account for the amount of the restricted net assets.

When a fund contains both restricted and unrestricted assets, and these assets are fungible, the state must disclose which assets are expended first. Normally this would be the unrestricted assets. For example: The general fund diversion to the Highway User's Trust Fund (HUTF), which is unrestricted, is considered expended first, before the HUTF funds, which are considered restricted, are expended.

**2.9 Risk Management Funds**

On July 1, 2001 the state implemented GASB Interpretation No. 6 in conjunction with GASB 34/35. Under Interpretation No. 6, claims and judgments are accrued only for those known as of June 30. Incurred but not reported (IBNR) claims will not be accrued as a fund liability in the general fund. The incurred but not reported (IBNR) will be accrued as a long-term liability in fund 471.

**2.10 Retirement Payouts**

Under GASB Interpretation No. 6, adopted by the state effective July 1, 2001, the fund liability in governmental funds for compensated absences is accrued when paid. Agencies should no longer accrue retirement payouts in a governmental fund if they are payable after the end of the fiscal year.



If an employee, eligible to retire, announces that their retirement date is June 30 or sooner, then the agency must accrue a fund liability for their retirement payout, even if the payment will not be made until the July payroll. However, if the employee announces that they are retiring July 1 or later, then there is no expenditure or fund liability at June 30, as the retirement date is in the following fiscal year.

